

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 21st day of
August, 2007.

In the Matter of S. K. & M. Water and Sewer)	<u>Case No. WR-2007-0460</u>
Company's Rate Increase Request)	Tariff No. YW-2007-0864

**ORDER APPROVING AGREEMENT REGARDING
DISPOSITION OF SMALL COMPANY RATE
INCREASE REQUEST**

Issue Date: August 21, 2007

Effective Date: August 31, 2007

Syllabus: This order approves the Unanimous Disposition Agreement between the S. K. & M. Water and Sewer Company ("S. K. & M."), the Staff of the Missouri Public Service Commission ("Staff") and the Office of Public Counsel ("OPC"). Further, it authorizes S. K. & M. to file tariff sheets that are in conformity with the Unanimous Disposition Agreement. The tariff will implement a rate increase for the company.

Procedural History

On October 19, 2006, S. K. & M. initiated a small water company rate increase action under Commission Rule 4 CSR 240-3.635. S. K. & M. provides water service to approximately 280 residential customers in the company's service area in Perry County, Missouri.

On May 31, 2007,¹ after working with the Commission's Staff, S. K. & M. filed a tariff designed to increase its rate for water service.² S. K. & M. had originally requested a rate increase intended to generate an additional \$50,818 in its total annual water service operating revenues, but after working with Staff, S. K. & M. filed revised tariff sheets containing customer rates intended to produce an increase of \$16,020 in the company's annual water system operating revenues. S. K. & M. also filed a letter requesting that the Commission approve its revised tariff sheets for an increase in its water service rates.

On June 7, Staff filed the *Company/Staff Agreement Regarding Disposition of Small Water Company Rate Increase Request* ("Original Disposition Agreement"). Based upon its audit of S. K. & M.'s books and records, an evaluation of its depreciation rates, and an analysis of its capital structure and cost of capital, Staff concluded that S. K. & M. could justify an increase of \$16,020 in its annual water service operating revenues.

OPC did not join the Original Disposition Agreement and requested a local public hearing, which was conducted on June 25, 2007. The Commission also granted OPC's motion to compel additional discovery on June 26, 2007.

On July 2, 2007, OPC filed a pleading stating that despite the additional discovery it had received it still had concerns regarding what it believed were improper charges to the utility in the Original Disposition Agreement. Pursuant to 4 CSR 240-3.635(1)(E), OPC stated that it disagreed with the proposed increases reflected on the tariff sheets filed by

¹ All dates following this date in this order refer to the year 2007 unless otherwise noted.

² S. K. & M. agreed to two extensions of the 150-day tariff rule, and S. K. & M. filed its written consent to these extensions pursuant to Commission rule 4 CSR 240-3.635(1)(F). S. K. & M.'s cover letter and date of issue on its submitted tariff was June 1, 2007. Staff provided the Office of Public Counsel with the results of its investigation and its recommendations for resolutions of S. K. & M.'s request.

S. K. & M. Consequently, OPC requested that the Commission suspend the tariffs to allow further negotiation between the parties.

On July 3, 2007, pursuant to Section 393.150, RSMo 2000,³ the Commission suspended S. K. & M.'s tariff to allow OPC sufficient time to work with Staff and S. K. & M. to develop increases acceptable to OPC on behalf of the ratepayers. The Commission also set a tentative date for hearing should resolution of this matter not be reached. The tariff sheets submitted by S. K. & M. were suspended until September 14 and the tentative date for hearing was set for August 14.

The Unanimous Disposition Agreement

On August 13, S. K. & M., Staff and OPC jointly filed a Unanimous Agreement Regarding Disposition of Small Water Company Revenue Increase Request ("Agreement"). In the Agreement, the parties state: "That the ratemaking income statement attached hereto as Attachment B accurately reflects the Company's annualized revenues generated by its current customer rates, the agreed-upon annualized cost of service to be recovered through the Company's customer rates, and the resulting agreed-upon annualized operating revenue increase of \$9,398, which is required to recover the agreed-upon cost of service." Attachment E to the Agreement indicates that customer rates will increase approximately 17.29%.

This increase is composed of a change in the current base charge of \$4.69 to \$5.50, and a change in usage rate for 5/8" meters of \$1.980 to \$2.322 per thousand gallons used. For a customer using 6000 gallons of water per month, the change in rates would result in increasing the total monthly bill from \$16.57 to \$19.43.

³ All statutory citations refer to RSMo 2000 unless otherwise noted.

The parties further agree and submit to the Commission the following:

- (1) That for the purpose of implementing the agreements set out herein, the Company will submit a substitute tariff sheet containing the rates, charges and language set out in the example tariff sheet attached hereto as Attachment A, to replace the corresponding pending revised tariff sheet.
- (2) That the Staff and the OPC agree that the pending revised tariff sheets and/or the substitute tariff sheet that the Company will be submitting should be approved to be effective for service rendered on or after September 1, 2007, or as soon thereafter as is possible; provided that the Company submits the substitute sheet by August 20, 2007.
- (3) That the ratemaking income statement attached hereto as Attachment B accurately reflects the Company's annualized revenues generated by its current customer rates, the agreed-upon annualized cost of service to be recovered through the Company's customer rates, and the resulting agreed-upon annualized operating revenue increase of \$9,398, which is required to recover the agreed-upon cost of service.
- (4) That the workpapers attached hereto as Attachment C, which include consideration of a capital structure of 63.38% equity for the Company and a pre-tax rate of return on equity of 10.10%, accurately reflect the agreed-upon annualized cost of service and provide the basis for the ratemaking income statement referenced in item (3) above.
- (5) That the rates set out in the attached example tariff sheet, the development of which is shown on the rate design worksheet attached hereto as Attachment D, are designed to generate revenues sufficient to recover the agreed-upon annualized cost of service.
- (6) That the rates included in the attached example tariff sheet will result in the residential customer impacts shown on the billing comparison worksheet attached hereto as Attachment E.
- (7) That the rates included in the attached example tariff sheet are just and reasonable, and that the provisions of the pending revised tariff sheets and/or the attached example substitute tariff sheet also properly reflect all other agreements set out herein, where necessary.
- (8) That the schedule of depreciation rates attached hereto as Attachment F should be the prescribed schedule of water plant depreciation rates for the Company.

(9) That the Company will refund customer deposits currently held improperly as set out below:⁴

(a) For deposits collected prior to January 1, 1994, the Company will return the deposits and accrued interest as monthly bill credits over a one- year period, starting with the first billing period after the effective date of the tariff revisions resulting from this Unanimous Agreement.

(b) For deposits collected during the period of January 1, 1994 through December 31, 2000, the Company will return the deposits and accrued interest as monthly bill credits over a one-year period, starting with the thirteenth billing period after the effective date of the tariff revisions resulting from this Unanimous Agreement.

⁴ S. K. & M. charges all new water and sewer customers a security deposit. S. K. & M.'s accounting firm does not provide water customers the opportunity to prove creditworthiness, as cited in the PSC rules, which would enable the customer to avoid paying a deposit. Although the Company's tariff allows the opportunity to assess a security deposit to all new sewer customers, the same does not apply to customers receiving water service. The policy with regard to security deposits for water service is a violation of Commission Rules. Commission Rule 4 CSR 240-13.030(1) includes the following:" (1) A utility may require a deposit or other guarantee as a condition of new residential service if- (A) The customer has outstanding with a utility providing the same type of service, an unpaid bill which accrued within the last five (5) years and, at the time of the request for service, remains unpaid and not in dispute; (B) The customer has in an unauthorized manner interfered with or diverted the service of a utility providing the same service situated on or about or delivered to the customer's premises within the last five (5) years; or (C) The customer is unable to establish an acceptable credit rating under standards contained in tariffs filed with and approved by the commission. The customer shall be deemed *prima facie* to have established an acceptable credit rating if the customer meets any of the following criteria: 1. Owns or is purchasing a home; 2. Is and has been regularly employed on a full-time basis for at least one (1) year; 3. Has an adequate regular source of income; or 4. Can provide adequate credit references from a commercial credit source."

Deposits are not currently being refunded to water customers who have paid undisputed utility charges on time during the last twelve billing months. Personnel from the Company's accounting firm indicated that all security deposits are refunded when customers leave its service territory. Commission Rule 4 CSR 240-13.030 (4)(D) includes the following: Upon satisfactory payment of all undisputed utility charges during the last twelve (12) billing months, [the security deposit] shall be promptly refunded or credited, with accrued interest, against charges stated on subsequent bills. Payment of a charge is satisfactory if received prior to the date upon which the charge becomes delinquent provided it is not in dispute. . . .

In addition, the Company has not refunded security deposits to water and sewer customers with interest. This is a violation of Commission rules and Company tariffs. Commission Rule 4 CSR 240-13.030(4)(B) states: (4) A deposit shall be subject to the following terms: "... (B) It shall bear interest at a rate specified in utility tariffs, approved by the commission, which shall be credited annually upon the account of the customer or paid upon the return of the deposit, whichever occurs first. . . ." Rule 10 of the Company's water tariffs (Sheet No. 25) includes the following: Interest at the rate of 6% per annum compounded annually shall be payable on all deposits, but shall not accrue after the utility has made reasonable effort to return the deposit. Interest may be credited to the customer's account. In addition, Rule 10 of the Company's sewer tariff (Sheet No. 18) includes the following: Interest at the rate six percent (6%), payable upon return of the deposit, will be paid for the time such deposit was held by the Company unless such period of time be less than six (6) months.

(c) For deposits collected during the period of January 1, 2001 through July 31, 2006, the Company will return the deposits and accrued interest as monthly bill credits over a one-year period, starting with the twenty-fifth billing period after the effective date of the tariff revisions resulting from this Unanimous Agreement.

(d) For deposits collected after August 1, 2006, the Company will return the deposits and accrued interest the first month that the deposits are eligible for return, which is twelve months from the date the deposit was originally collected.

(10) That within ninety (90) days of the effective date of the tariff revisions resulting from this Unanimous Agreement, the Company will provide the Staff and the OPC documentation that supports the amounts of deposits and accrued interest that will be returned to its customers in accordance with item (9) above. At a minimum, this documentation will include the following: customer name; deposit date; deposit amount; amount of deposit to be refunded; number of years outstanding; interest owed; and total amount owed.

(11) That the Company will contract with a properly licensed chief operator within ninety (90) days of the effective date of the tariff revisions resulting from this Unanimous Agreement; or the Company's general manager, who is a properly licensed operator, will fulfill the duties of the chief operator.

(12) That if the Company does not comply with the provisions of item (11) above, it will file a revised rate tariff sheet including customer rates designed to reduce its annualized revenues by an amount corresponding to the amount that was included in the agreed-upon cost of service for the operator's salary and related payroll taxes.

(13) That the Company will implement the recommendations contained in the Staff's Engineering & Management Services Department Report attached hereto as Attachment G within one-hundred twenty (120) days after the effective date of the tariff revisions resulting from this Unanimous Agreement.⁵

⁵ The Commission's Engineering and Management Services Department (EMSD) staff initiated a review of the customer service processes, procedures and practices at S. K. & M. on October 19, 2006 and noted the following violations of Commission rules (in addition to the violations of the deposit rules as discussed in footnote 3) all of which must be rectified as part of the Disposition Agreement:

(a) S. K. & M. does not allow the customer 21 days from rendition of the bill to make payment. Customer billing statements are mailed on the 1st day of every month and are due on the 10th of every month. This is in violation of Commission Rule 4 CSR 240-13.020 (7), which states: "A monthly-billed customer shall have at least twenty-one (21) days and a quarterly-billed customer shall have at least sixteen (16) days from the rendition of the bill to pay the utility charges, unless a customer has selected a preferred payment date in

(14) That the Company will send its customers a notice regarding the impact of the rates resulting from this Unanimous Agreement either prior to or with the first billing under those rates, and will file a copy of that notice in the case file within ten (10) days after the date it sends the notice to its customers.

(15) That the Company acknowledges that the Staff will, and the OPC may, conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Unanimous Agreement.

(16) That the Company acknowledges that the Staff or the OPC may file a formal complaint against it, if the Company does not comply with the provisions of this Unanimous Agreement.

(17) That the above agreements satisfactorily resolve all issues identified by the Staff and the OPC regarding the Company's Request, except as otherwise specifically stated.

(18) That the agreements set out in items (1) through (17) above supersede the agreements reached by the Company and Staff, which were set out in the Company/Staff agreement that the Staff filed in this case on June 7, 2007.

Decision

The Commission has the authority to approve or reject S. K. & M.'s proposed tariff

accordance with a utility's preferred payment date plan. In instances where no meter reading has been obtained, the Company does not indicate on all of its customers' monthly billing statements that the bill is estimated. This is in violation of Commission Rule 4 CSR 240-13.020 (2) (D) 2, which states: "When a utility renders an estimated bill in accordance with these rules, it shall – (2) Clearly and conspicuously note on the bill that it is based on estimated usage. Noting that bills are estimated when no meter reading has been obtained clarifies the Company's billing practices to customers and may eliminate further billing disputes.

(b) Personnel of the Company's accounting firm indicated that no notice is left at customers' premises when their water service is disconnected. This is a violation of Commission Rule 4 CSR 240-13.050(8) which states: "... When service is discontinued, the employee shall leave a notice upon the premises in a manner conspicuous to the customer that service has been discontinued and the address and telephone number of the utility where the customer may arrange to have service restored." According to the above Commission rule, the Company must leave notice for the customer when water service is disconnected.

(c) The Company does not maintain a log noting the complaints received from its customers. This is a violation of Commission Rule 4 CSR 240-13.040(5), which states: "A utility shall maintain records on its customers for at least two (2) years which contain information concerning: ... (B) The number and general description of complaints registered with the utility." Not maintaining a log makes it difficult to determine the number of customer complaints that the Company receives. Additionally, the lack of a complaint log makes it difficult for the Company to provide accurate documentation of the nature of its complaints. Compliance with the requirement to maintain a complaint log can be as simple as a notebook with dated notations including the date, name of the customer, a description of the complaint or inquiry and the action taken. In addition to adhering to Commission rules, the availability of documented complaint information is a beneficial tool that

revision pursuant to Sections 393.140(11) and 393.150. Section 393.130.1, provides that all charges made by any water corporation for service rendered or to be rendered shall be “just and reasonable and not more than allowed by law or by order or decision of the commission.” The Commission finds the agreement between S. K. & M., Staff and Public Counsel, to be just and reasonable, and shall approve the agreement. The Commission will authorize S. K. & M. to file substitute tariff sheets sufficient to recover revenues as delineated in the Unanimous Disposition Agreement following the example tariff sheet attached to the Unanimous Disposition Agreement as Attachment A. Furthermore, the Commission finds the depreciation rates proposed by Staff to be just and reasonable and shall approve them.

IT IS ORDERED THAT:

1. The Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request is approved and the parties are directed to comply with the terms of the agreement. A copy of the Agreement is attached to this order.

2. S. K. & M. Water and Sewer Company is authorized to file substitute tariff sheets sufficient to recover revenues as delineated in the Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request following the example tariff sheet attached to the Agreement as Attachment A.

3. The Depreciation Schedule in Attachment F to the Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request is approved as the schedule of depreciation rates authorized for S. K. & M. Water and Sewer Company’s use.

would enable Company management to evaluate the reasons why customers contact the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction.

4. S. K. & M. Water and Sewer Company will refund customer deposits currently held improperly as follows:

(a) For deposits collected prior to January 1, 1994, the Company will return the deposits and accrued interest as monthly bill credits over a one- year period, starting with the first billing period after the effective date of the tariff revisions resulting from this Unanimous Agreement.

(b) For deposits collected during the period of January 1, 1994 through December 31, 2000, the Company will return the deposits and accrued interest as monthly bill credits over a one-year period, starting with the thirteenth billing period after the effective date of the tariff revisions resulting from this Unanimous Agreement.

(c) For deposits collected during the period of January 1, 2001 through July 31, 2006, the Company will return the deposits and accrued interest as monthly bill credits over a one-year period, starting with the twenty-fifth billing period after the effective date of the tariff revisions resulting from this Unanimous Agreement.

(d) For deposits collected after August 1, 2006, the Company will return the deposits and accrued interest the first month that the deposits are eligible for return, which is twelve months from the date the deposit was originally collected.

5. Within ninety days of the effective date of the tariff revisions resulting from approval of the Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request, S. K. & M. Water and Sewer Company shall provide the Staff and the OPC documentation that supports the amounts of deposits and accrued interest that will be returned to its customers in accordance with ordered paragraph number 6 above. At a minimum, this documentation will include the following: customer name; deposit date; deposit amount; amount of deposit to be refunded; number of years outstanding; interest owed; and total amount owed.

6. S. K. & M. Water and Sewer Company will contract with a properly licensed chief operator within ninety days of the effective date of the tariff revisions resulting from approval of the Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request; or S. K. & M. Water and Sewer Company's general manager, who is a properly licensed operator, will fulfill the duties of the chief operator.

7. If S. K. & M. Water and Sewer Company does not comply with the provisions of item ordered paragraph number 6 above, it will file a revised rate tariff sheet including customer rates designed to reduce its annualized revenues by an amount corresponding to the amount that was included in the agreed-upon cost of service for the operator's salary and related payroll taxes.

8. S. K. & M. Water and Sewer Company will implement the recommendations contained in the Engineering & Management Services Department Report attached to the Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request as Attachment G within one-hundred twenty days after the effective date of the tariff revisions resulting from approval the Agreement.

9. S. K. & M. Water and Sewer Company will send its customers a notice regarding the impact of the rates resulting from the Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request either prior to or with the first billing under those rates, and will file a copy of that notice in this case within ten days after the date it sends the notice to its customers.

10. This order shall become effective on August 31, 2007.
11. This case may be closed on September 1, 2007.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Murray, Gaw, Clayton
And Appling, CC., concur

Stearley, Regulatory Law Judge